




Bulletin

2004-04B

FY05 BUDGET ISSUES

TO: Mayors and Selectmen City and Town Managers
Boards of Assessors Executive Secretaries and Finance Directors
Auditors and Accountants City Solicitors and Town Counsel
Collectors and Treasurers

FROM: James R. Johnson, Director of Accounts


DATE: February 23, 2004

SUBJECT: FY05 Budget Issues

This *Bulletin* addresses several items cities and towns may consider in development of budgets for FY05.

Appropriations by City Council or Town Meeting

While provisions exist in the General Laws for including items in the tax rate recapitulation which have not been appropriated in the city or town budget, the principle of appropriations being made by the legislative body should be maintained. Such basic items as principal and interest on bonded debt, the assessment for pension costs, assessments for regional transit authorities and assessments for vocational school districts should be included in the appropriations voted by the city council or town meeting.

We believe that the items reported as "Other amounts to be raised" on the tax rate recapitulation form should be confined to items which were not known or whose amounts were not determinable during the budget process.

Several city and town officials have requested clarification on the amounts which may be included as "Other amounts to be raised" for tax title purposes (line II. B. 1 of the recap) since our *Bulletin* on this subject was issued in January 1999. We agree that amounts for cost of outside counsel are proper, along with filing fees and cost of publication of legal notices. We continue to feel that staff costs in departments such as the collector, treasurer, city solicitor or town counsel should be funded from department appropriations.

Reimbursement for December 2003 Storms

The Massachusetts Emergency Management Agency (MEMA) has advised municipal executive and public works officials of reimbursement by the Federal Emergency Management Agency (FEMA) for 75% of certain costs incurred for the snowstorm of December 6-7, 2003, under grant program FEMA-3191-EM. Officials from your city or town may have attended briefing sessions conducted by MEMA and received explanatory materials and application forms.

Reimbursement claims are due at MEMA on or before June 9, 2004. If all details are in order, MEMA expects the State Treasury to wire payments to cities and towns by June 30, 2004. If the claims require further documentation or research, the payments will likely be delayed.

We will allow deposit of the reimbursement into a special revenue fund and transfer of the eligible expenditures into this fund without further appropriation. Any snow and ice removal account deficit as of June 30, 2004 must be provided for in the FY05 tax rate recap pursuant to the provisions of Chapter 44 §31D, unless otherwise provided for by appropriation or transfer.

A special revenue fund should be established and reimbursed costs transferred from the departmental appropriation to the fund. If the reimbursement is not received by June 30, 2004, the Bureau will allow accrual of the anticipated reimbursement. If the reimbursed amount is less than the accrual, the FY05 appropriation for the same line item(s) must be charged.

Community Preservation Fund Grants

In October 2003, state grants equal to 100% of the surcharge collected during FY03 were paid to the 54 cities and towns that had elected the program during that fiscal year. City and town officials have asked for an estimate of the grants for use in developing FY05 budgets. We anticipate that the grants to be paid in October 2004 will again be 100% of the surcharge collected in FY04.

Pension Cost Deferral

An option for deferral of a portion of pension costs in FY04 and FY05 was enacted in the Municipal Relief package, Chapter 46 §128 of the Acts of 2003. The Public Employee Retirement Administration Commission (PERAC) published its memorandum No. 26-2003 on August 6, 2003 to Retirement Boards on this subject. Eight cities and towns elected to use the option in FY04.

Acceptance is by the mayor and council in a city or the selectmen and town meeting or town council in a town. In most cases, the reduction of the pension appropriation would be part of the city or town budget for FY05; however, a separate vote to reduce the pension appropriation could occur until the tax rate recapitulation is submitted in the fall. Please note that only the city or town pension assessment can be

affected (not the assessment for a redevelopment authority, housing authority or similar entities which may be part of the same retirement system).

An acceptance form is attached which should be completed and submitted to PERAC and DOR for approval, then attached to the FY05 tax rate recapitulation after approval by the two agencies. References below are to the lines on this acceptance form.

A city or town may reduce its appropriation for its pension liability in FY05, subject to three limits:

- ◆ The pension appropriation may not be less than the “normal cost” component of the funding schedule (lines C, D and E), and
- ◆ The local aid reduction may be the larger of the local aid reductions for lottery, additional assistance, and the two education accounts listed on the form, or of the reductions for lottery and additional assistance alone (lines G 1 to 7),
- ◆ The deferral is limited to the lesser of the amounts produced by the first two tests (line H).

Even for FY05, the local aid reductions are measured between the amounts set forth in section 3 of the original state budget for FY03 (Chapter 184 of the Acts of 2002) and section 3 of the state budget for FY04 (Chapter 26 of the Acts of 2003). The FY03 amounts are prior to the aid reductions implemented pursuant to General Laws Chapter 29 §9C, and therefore result in the largest reduction which could be presented.

The section contains provisions (reflected in lines F 1 to 3) precluding use of this option if a city or town has funds in a “special statutory reserve” that meet certain criteria. This provision relates to mandatory fiscal stability funds which have been required in special acts authorizing issuance of deficit bonds or notes; the provision does not refer to a stabilization fund maintained under provisions of Chapter 40 §5B.

The PERAC memorandum emphasizes that payback of the deferral would be reflected beginning in the funding schedule for FY06.

A city or town considering this option should work closely with its city or town, or its county or regional retirement system, in completing the form. PERAC will primarily review lines C, D and E, and DOR will primarily review sections F, G and H. The two agencies will consult if necessary, since approval by the two agencies is required, as indicated above.

* * *

Please contact your Bureau of Accounts field representative with questions.

PENSION DEFERRAL ACCEPTANCE
(Ch. 46 §128 of the Acts of 2003)

City/Town of _____

FY 2005

Instructions:

File with DOR, DLS, Bureau of Accounts and PERAC

Attach copy signed by both agencies to Tax Rate Recapitulation.

A. Acceptance. Attach copy of action by Mayor and Council or Selectmen and Town Meeting.

B. FY04 data: Enacted Appropriations (Recap line IIa) \$ _____

C. FY05: Pension assessment from PERAC funding schedule \$ _____

D. FY05 "Normal Cost" included in Line C above \$ _____

E. Maximum deferral based on funding schedule (line C less Line D) \$ _____

F. Availability of statutory emergency reserve:

1. "Special Statutory Emergency Reserve" balance as of 6/30/04 \$ _____

2. FY04 departmental appropriations, except schools, times 2.5% \$ _____

3. Difference (Line 1 less Line 2) \$ _____

NOTE: If Line 3 is positive, deferral cannot be implemented.

G. Maximum Deferral based on local aid reductions:

| | FY03 | FY04 | FY03 less FY04 |
|---------------------------|-------|-------|----------------|
| 1. Chapter 70 Aid | _____ | _____ | _____ |
| 2. Reduce Class Size Aid | _____ | xxx | _____ |
| 3. Additional Assistance | _____ | _____ | _____ |
| 4. Lottery Distribution | _____ | _____ | _____ |
| 5. Total of lines 3 and 4 | xxx | xxx | _____ |
| 6. Total of lines 1 to 4 | xxx | xxx | _____ |

7. Local aid formula maximum deferral for FY05 (cannot exceed greater of Line 5 or Line 6). \$ _____

H. Amount voted to be deferred for FY05 – not to exceed lesser of Line E. or Line G 7. \$ _____

Submitted by: _____
Name Title

Phone: (____) _____

Approved by: _____
Director of Accounts, DOR Executive Director, PERAC